

## **Eton Irrigation Submission to QCA Rate of Return Review**

### **Eton Irrigation Background**

The Eton system was built in the 1980s as a Queensland State Government system to distribute water from Kinchant Dam, 40 km west of Mackay.

Kinchant Dam, built across Sandy Creek in 1977, gets most of its stored water from the Pioneer River with only a small percentage coming from natural inflows.

Water from the river is pumped from Mirani Weir into an 8 km diversion channel that discharges into the dam, where it is then distributed to the Eton system.

The Eton system delivers up to 51,900ML of irrigation water to 315 customers covering approximately 15,000 hectares of irrigated land using 35km of open channel, 130km of pipeline and 6 pump stations.

A move toward local management of the Irrigation Scheme had been discussed and considered by customers of the Irrigation Scheme and the Queensland Government for over 20 years. Work commenced in 2012 when Government began detailed investigations into the feasibility of Local Management for Sunwater's irrigation schemes.

In late 2016, the Queensland Government set up Eton Irrigation and appointed the Board to negotiate and investigate the local management proposal with the Queensland Government and ultimately, if accepted by the Board and the Customers, to become the owner and operator of the Irrigation Scheme.

In 2019 a proposal put to the members was accepted by over 85% of the Water Allocation holders by volume.

In March 2020, Eton Irrigation Pty Ltd came into being and took over ownership and operation of the system. Note that Kinchant Dam remains owned and operated by Sunwater.

In December 2020, the company converted to a co-operative. It currently has 5 Directors on the Board (3 members and 2 independents) and 9 employees.

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## Rate of return impacts on Eton Irrigation

The rate of return primarily impacts Eton Irrigation through water (Sunwater) and electricity (Ergon) charges. Distributing water is our core business and in doing that we operate six electrically powered pump stations.

Our water charges are in the order of \$580,000 per annum and our electricity charges are approximately \$475,000 per annum. Combined, that is more than \$1 million out of total costs of running this business of just over \$3 million. Consequently, any increases in those charges will have a detrimental impact on us and our members/customers.

Eton Irrigation is not looking for a rate of return in our business (ie we have adopted a zero rate of return). We are running our system on behalf of our members/customers as a service. Our goal is to break even in the long term.

Both Sunwater and Ergon are effectively monopoly businesses with no competitors in the Mackay region. Eton Irrigation's position is that both water and electricity should be provided at cost (or subsidised) as a service to the community that underpins economic activity and jobs in this region. Therefore, we believe that the Qld Govt should have a zero rate of return for both Sunwater and Ergon. It has been commented that this was part of the original business case before Kinchant Dam was built.

Although this may seem to be an unusual approach to take (from a purest economist point of view), the position of the Queensland government in water seems to indicate that they are not looking for a return. The pre-election commitment to discount irrigation prices by 15% (broadacre) and 50% (horticulture) clearly shows that they see water as a driver of economic activity and jobs in the regions and that it should not be a money maker for the Queensland Treasury.

The zero rate of return approach would also be much easier to implement than the discounts. The practical application of the discounts split between horticulture (50%) and non-horticulture (15%) is very difficult. Within Eton we are mostly Sugar Cane (15% discount) but we do have some small amounts of horticulture (macadamias, limes, mangoes etc - 50% discount). Some farms even have both on the one farm. Despite multiple enquiries by Eton Irrigation, QFF and others, no method of applying these different discounts in the real world has been put forward.

We understand that this submission does not delve into the detailed components of calculating the rate of return as requested by the QCA. However, if a zero rate of return is accepted, then the calculation of the rate of return components becomes irrelevant.

It is understood that the QCA is concerned if the rate of return is too low, that *"it could have a chilling effect on investment leading to inadequate capacity and/or service quality and potentially reduce revenues to the point where the financial sustainability of a regulated entity is endangered"*. However, this assumes that the motivation for investment is a simplistic, straight dollar return on capital. The real motivation comes from government and directs the entity to provide the services. The return for the government is a more nuanced, indirect benefit through maintained or increased economic activity and jobs – a direct return is not the only motivation for these entities. Eton Irrigation is in exactly that situation. The absence of a direct return does not sap our motivation and lead to a decline in capacity and/or service quality.

Eton Irrigation is also a member of the QFF and supports their submission.